September was a volatile month given several key central bank decisions and macro data releases. While the overall macroeconomic story remained in place, uncertainty around US elections and key monetary policies continued to affect risk assets. Major moves came from within the commodities space, as OPEC led oil production cut rumors led to a risk-on environment for energy assets. Although equity markets ended the month largely flat, there were significant mid-month moves as the markets initially sold off sharply in response to a surprise ECB decision to withhold additional stimulus followed by a late-month bounce buoyed by the Fed’s move to keep rates steady.

Despite that, it was a good month and quarter for most hedge fund strategies with a continuation of their strong showing in recent months to conclude a strong third quarter. Convertible Arbitrage, Equity Long/Short and Event Driven strategies were the top performers. The CISDM Equal Weighted Hedge Fund Index gained 0.33% for the month, bringing YTD gains to 4.7%. This compares with a YTD gain of 7.8% for the S&P 500, 5.8% for the MSCI ACWI and 5.7% for the Aggregate Bond Index.

Equity Hedge strategies experienced strong performance gaining 0.74% in September to finish +4% in Q3, 2016 reversing the poor performance from earlier in the year. Global equity markets, in comparison, were mostly mixed to flat in September. While all sub-strategies had a strong positive month, September performance was led by European Long/Short and US Long/Short Small Cap sub-strategies which gained 1.06% and 1% respectively.

Equity Market Neutral bounced back from a slightly negative August to end September with gains of 0.27% taking YTD returns to -0.20%. Frequent reversals in factors that this strategy typically trades on...
contributed to poor performance this year despite being in an environment where many expected it to do well as stock dispersion and volatility increased.

Fixed Income Arbitrage had a positive month returning 0.58%. YTD returns of 4.11% point to a steady performance amid volatile markets and ongoing uncertainty around the direction of interest rates. Convertible Arbitrage continued its recovery for the year with a strong September finishing up 1.07% and taking YTD gains to 3.15%.

Interestingly while Event Driven Multi-Strategies had a flat month, individual sub-sectors such as dedicated Merger Arbitrage and Distressed Securities had a strong September finishing up 0.53% and 0.82% respectively as distressed credit and special situations did well. YTD gains are now at 4.8% (Merger Arbitrage) and 6.15% (Distressed Securities).

Global Macro and China-focused strategies continued to disappoint with a lackluster September (-0.29% and -0.58% respectively). CTAs had a tough September (-0.57%) as trend strategies suffering reversals caused by risk assets selling off in reaction to the ECB’s decision to not add additional stimulus only to reverse as the Fed held rates steady later in the month.